

European Union

Consumer services weigh on EU recovery

Key findings:

- Manufacturers continued to lead growth.
- Consumer-oriented services remained relatively weak.

Sectors

Detailed EU data covering 22 sectors showed a broad-based rise in business activity in June, as has been the case throughout the second quarter. However, 15 sectors posted softer rates of growth than in May.

In June, the top-six performing sectors in terms of output growth were all classified as manufacturing. The strongest rate of growth was signalled in electronic & electrical equipment, followed by health care equipment & services and industrial engineering.

Growth of autos production slowed further, easing to a nine-month low. This reflected a tempering of demand from recently closed government scrap incentive schemes across the EU. However, the sector still posted the fifth-fastest rate of growth of all sectors covered in June, and growth has been maintained for nearly one year.

Of the 'pure' service sectors covered (those not containing elements of manufacturing), the best performers in June were support services, software & computer services and banks.

The slowest growth rates overall were indicated in household goods & home construction, media and financial services.

There remained contrasting inter-EU trends in the construction sector in June. UK construction activity rose markedly, while a sharper decline was indicated in the Euro area. Overall, the EU construction & materials sector – which includes manufacturing of construction inputs¹ – posted growth of activity for the third month running.

¹ Producers of materials used in the construction and refurbishment of buildings and structures, including cement and other aggregates, wooden beams and frames, paint, glass, roofing and flooring

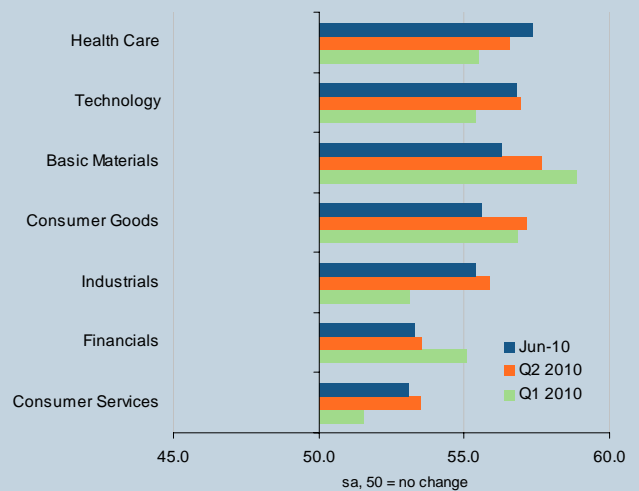
Industries

The publication of June PMI data rounded off a quarter of robust growth, with output from the combined manufacturing and service sectors growing at the fastest pace since the third quarter of 2007.

Over Q2 as a whole, basic materials (covering forestry, metals, mining and chemicals) posted the strongest growth of the seven broad industry groups covered, followed by consumer goods – the latter boosted by a sharp increase in autos production. The weakest broad industry over the quarter was consumer services, as had also been the case in Q1.

However, the situation was showing signs of changing by the end of the quarter. In June, it was health care that posted the fastest rate of output growth, followed by technology and then basic materials. Nevertheless, consumer services and financials remained the weakest performing industry groups in June.

Chart 1: EU industries, output/business activity



Employment

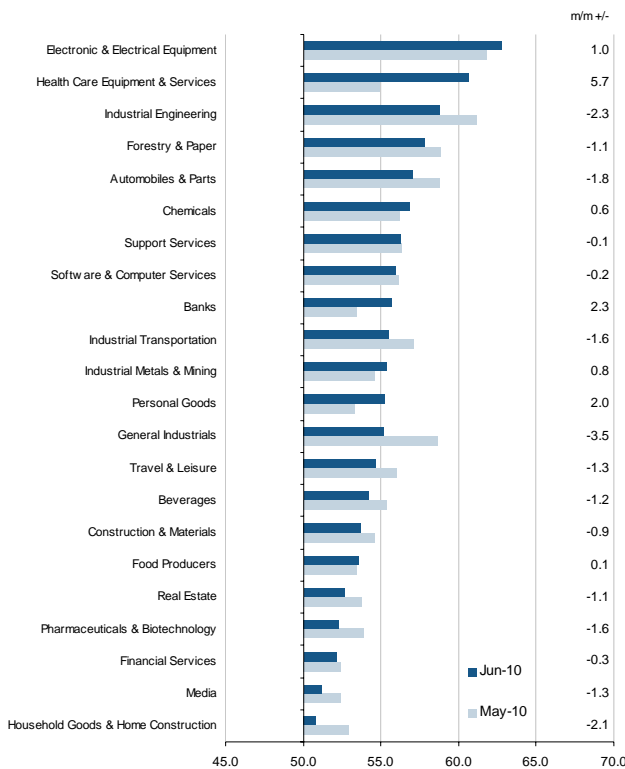
Employment growth across the EU private sector was maintained for the third month running in June. However, the rate of expansion remained muted. Fourteen of the twenty-two sectors recorded workforce growth during June, the same number as in May. Electronic & electrical equipment posted the steepest rate of job creation, followed by health care equipment & services.

materials other than carpets. Includes producers of bathroom and kitchen fixtures, plumbing supplies and central air-conditioning and heating equipment. Excludes producers of raw lumber, which are classified under Forestry.

Weakness in services threatens recovery

The latest EU sector data underline the weakness apparent in the service sector relative to manufacturing, as has been the recent trend throughout the major advanced economies covered by the PMIs². Breaking down EU services further using the sector data, business-facing areas appear to be performing better than consumer-oriented sectors. Examples of business-facing sectors include support services, industrial transportation and software & computer services, while consumer-leaning sectors include media and travel & leisure. This pattern of consumer weakness is reinforced by the Eurozone Retail PMI, which showed a further fall in sales in June³. The performance of services, and consumer-related areas in particular, clearly remains key to the sustainability of the recovery in the second half of 2010.

Chart 2: EU sectors, output/business activity



Source: Markit.

Chart 3: EU Construction & Materials

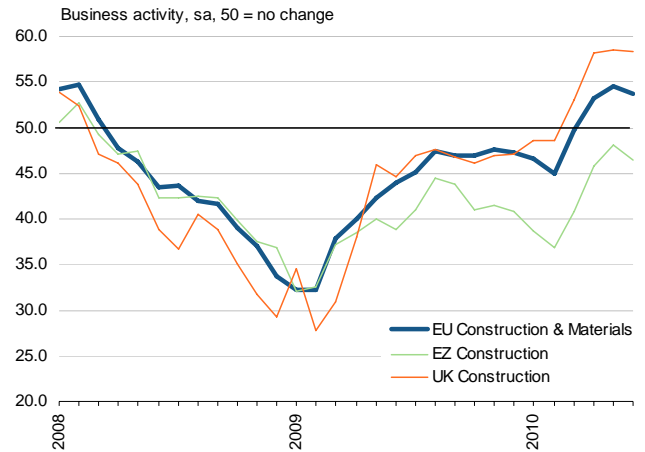


Chart 4: Employment

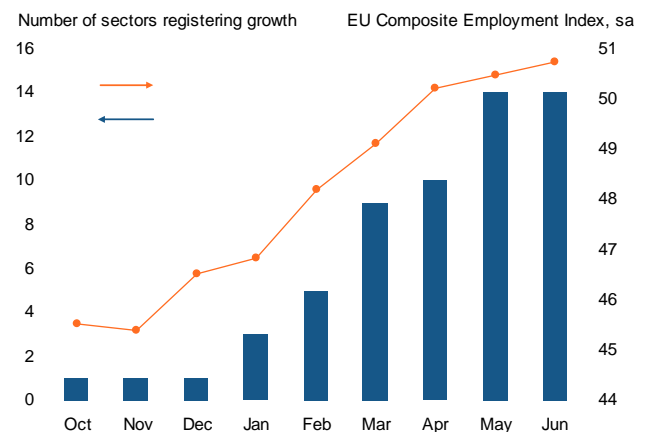
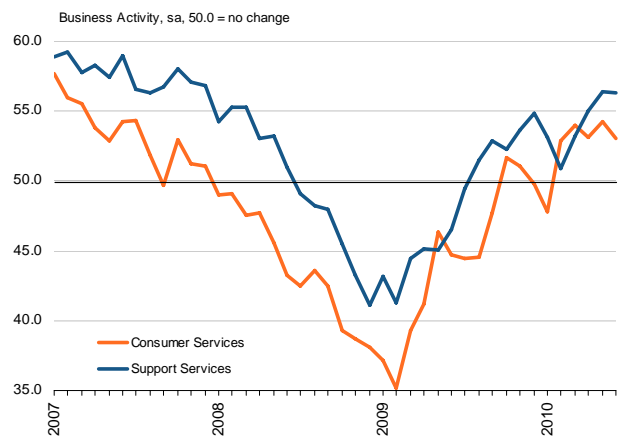


Chart 5: EU Services



Source: Markit.

² http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/jul/global%20economy_10_07_06.pdf
³ <http://www.markiteconomics.com/MarkitFiles/Pages/ViewPressRelease.aspx?ID=6643>

Notes on data and forthcoming releases

EU sector data are derived from the same national manufacturing, services and construction panels used for the PMI surveys, which together cover around 6,000 private sector companies. The sector data also track new and outstanding business, price trends, purchasing, stocks and supplier performance, and are released on the fifth working day of each month. July data will be available on 6 August.

The Eurozone Retail PMI is based on representative panels of retailers based in Germany, France and Italy, totalling around 1,000 retailers. July data will be available on 29 July.

For more information, please contact economics@markit.com.

Markit EU Sector PMIs

Industry	Supersector	Sector
1000 Basic Materials	1300 Chemicals 1700 Basic Resources	1350 Chemicals 1730 Forestry & Paper 1750 Industrial Metals & Mining 1770 Mining*
2000 Industrials	2300 Construction & Materials 2700 Industrial Goods & Services	2350 Construction & Materials 2710 Aerospace & Defence* 2720 General Industrials 2730 Electronic & Electrical Equipment 2750 Industrial Engineering 2770 Industrial Transportation 2790 Support Services
3000 Consumer Goods	3300 Automobiles & Parts 3500 Food & Beverage 3700 Personal & Household Goods	3350 Automobiles & Parts 3530 Beverages 3570 Food Producers 3720 Household Goods & Home Construction 3740 Leisure Goods* 3760 Personal Goods 3780 Tobacco*
4000 Health Care	4500 Health Care	4530 Health Care Equipment & Services 4570 Pharmaceuticals & Biotechnology
5000 Consumer Services**	5500 Media 5700 Travel & Leisure	5550 Media 5750 Travel & Leisure
8000 Financials	8300 Banks 8500 Insurance* 8600 Real Estate 8700 Financial Services	8350 Banks 8770 Financial Services
9000 Technology	9500 Technology	9530 Software & Computer Services 9570 Technology Hardware & Equipment*

*not currently published at sector/supersector level but included at supersector/industry level.

**excludes 5300 Retail

Trevor Balchin

Senior Economist

Markit

Tel: +44 1491 461 065

Email: trevor.balchin@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.